UMUZIWABANTU MUNICIPALITY

BUDGET VIREMENT POLICY

Table of Content

1. Background

1.1 South African Concise Oxford Dictionary of English defines "Virement" as "the process of transferring items from one financial account to another." The word Virement originates from the French word *"virer"* which means *"to turn"*.

1.2 Virement is the process of shifting funds between items, projects, programmes and votes within a municipal financial year.

1.3 Each year, the Municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters) or savings. As a result, it becomes necessary to transfer funds between items, votes, projects and programmes. It is not practical to refer all transfers between <u>line items</u> within a specific vote to the Council, and as the Local Government: Municipal Finance Management Act ("MFMA") is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between items, projects, programmes and votes.

2. Purpose

2.1 To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

2.1 The purpose of this policy is to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of certain officials;

2.2 To delegate responsibilities to municipal officials on the shifting of funds within the operating budget (Align with MFMA Delegations in place);

2.3 Also give framework of mandates to municipal officials to shift municipal funds within the operating budget.

3. Definitions

3.1 Accounting Officer (MFMA)

"- (a) in relation to a municipality, means the municipal official referred to in section 60; or…"

3.2 Approved Budget (MFMA)

" - means an annual budget-

(a) approved by a municipal council; or
(b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;"

3.3 Chief Financial Officer (MFMA)

"a person designated in terms of section 80(2)(a)"

3.4 Cost Centre

Cost centre is a cost collector which represents a logical point at which cost (expenditure) is collected and managed by a responsible cost centre owner.

3.5 Cost element

Cost elements distinguish between primary and secondary cost elements. Primary cost elements are expenditure items mainly generated outside the organization. Secondary cost elements are utilized to reallocate cost by means of assessments, internal billing or activity based recoveries.

3.6 Council

The Council of Umuziwabantu Municipality.

3.7 Financial Year

The 12 month period between 1 July and 30 June.

3.8 Vote (MFMA)

(a) "one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned?"

3.9 The Municipality
Umuziwabantu Local Municipality.

4. Application of Policy

4.1 This policy applies only to transfers between line items within votes of the Municipality's operating budget.

4.2 Section 28(2) (d) of the MFMA provides that *"An adjustments budget…may authorise the utilisation of projected savings in one vote towards spending in another vote."* Transfers between votes may therefore be authorised only by the Council of the Municipality.

4.3 For ease of reference, the definition of "vote" as contained in Section 1 of the MFMA is set out hereunder:
"vote means –
(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned."

4.4 This policy shall not apply to transfers between or from capital projects or items and no such transfers may be performed under this policy.

4.5 Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the Council through an adjustment budget.

5. Authorisation of Virements

A transfer of funds from one line item to another under this policy may, subject to the provisions of this policy, be authorised as follows:

5.1 If the amount does not exceed R 1000 000, the transfer may be authorised by the Chief Financial Officer of the Municipality or the Accounting Officer of the Municipality after consultation with the Chief Financial Officer;

5.2 If the amount exceeds R 1000 000 but does not exceed R 5 000 000, the transfer may be authorised by the Accounting Officer after consultation with the Chief Financial Officer;

5.3 The Mayor may authorise expenses in an emergency or other exceptional circumstances and the adjustment budget must be passed within sixty days after the expenses were incurred.

5.4 Notwithstanding the provisions of 5.1, a transfer of funds between cost or functional centres within a particular vote may not be authorised by the Chief Financial Officer but may only be authorised by:

5.4.1 The Accounting Officer, if the amount does not exceed the amount of R 5 000 000;
5.4.2 The Mayor may authorise expenses in an emergency or other exceptional circumstances and the adjustment budget must be passed within sixty days after the expenses were incurred.

6. Restrictions on amount of Virements

6.1 Notwithstanding the provisions of section 5:

6.1.1 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 40 % of the amount allocated to that vote;
6.1.2 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 25 % of the total operating budget for that year;

6.2 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to in 6.1 above may, however, be performed if the Council by resolution approves thereof.

7. Virements Permission

A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

8. Further Restrictions on Virements

8.1 A transfer of funds between line items shall not be permitted under this policy if the effect thereof would be to:
8.1.1 contravene any policy of the Municipality; or
8.1.2 alter the approved outcomes or outputs of an Integrated Development Plan; or
8.1.3 Result in any adjustment to the Service Delivery and Budget Implementation Plan.

8.2 No transfer of funds shall be permitted if same were to result in any change to the staff establishment of the Municipality, **except** if the Accounting Officer approves of such changes.

8.3 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.

8.4 Transfers of funds may not be made under this policy between or from capital items or projects.

8.5 To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

8.6 By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.

8.7 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.

8.8 The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.

8.9 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.

8.10 The approval of any transfer shall not *per se* constitute expenditure authority, and all expenditure resulting from approved transfers must, to the extent that same is applicable, be carried out in accordance with the Municipality's Supply Chain Management Policy.

8.11 Not transfer of funds shall be made on conditional grants funds earmarked for specific purposes.

8.12 Not transfer of funds are permitted on bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT.

8.13 No transfer of funds shall be permitted on revenue side of the budget.

9. Procedure for Virements

9.1 Proposals for transfers may be made by the Head of Department concerned.

9.2 The Accounting Officer shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

9.2.1 the name of the department concerned;

9.2.2 descriptions of the line items from and to which the transfer is to be made;

9.2.3 the amount of the proposed transfer;

9.2.4 the cause of the saving in the line item from which the transfer is to be made;

9.2.5 the justification for the transfer;

9.2.6 a description of any consequences that such transfer my have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.

9.3 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer and if :

9.3.1 the amount of the transfer does not exceed the amount referred to in section 5.1 and the transfer is not between cost or functional centres, the Chief Financial Officer shall:

- 9.3.1.1 approve the proposal, or
- 9.3.1.2 reject the proposal; or
- 9.3.1.3 refer the proposal to the Accounting Officer for approval or rejection;

9.3.2 the amount of the transfer does not exceed the amount referred to in section 5.1 but the transfer is between cost or functional centres, or if it falls within the range of amounts referred to in section 5.2, the Chief Financial Officer shall refer the proposal to the Accounting Officer who, after consultation with the Chief Financial Officer, shall approve or reject the proposal;

9.3.3 the amount of the transfer falls within the range of the amounts referred to in section 5.3, the Chief Financial Officer shall refer the matter to the Municipal Manger who in turn shall refer the matter to the Mayor, together with his recommendations, and the Mayor shall either approve or reject the proposal.

9.4 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

10. Reporting

10.1 The Chief Financial Officer must prepare and submit a report on all transfers to the Accounting Officer every month and quarterly.

10.2 The Accounting Officer shall submit a report on all transfers made under this Policy to the Mayor every quarterly.

11. General

11.1 The Accounting Officer shall be responsible for the implementation and administration of this Policy.

11.2 This Policy shall come into effect on the date of adoption by the Council of the Municipality.

12. **Amendments & Review of Policy**

The policy shall be reviewed annually during the preparation of the budget or anytime during the financial if considered necessary.

13. COMPLIANCE AND ENFORCEMENT

a) Violation of or non-compliance with this policy will give a just cause of disciplinary steps to be taken.

b) It will be the responsibility of chief financial officer to enforce compliance with this policy.

14. EFFECTIVE DATE

15. The policy shall come to effect upon approval by Council.

16. POLICY ADOPTION

This policy has been considered and approved by the **COUNCIL OF THE UMUZIWABANTU LOCAL MUNICIPALITY** as follows:

Resolution No:………………………….

Approval Date:......30 May 2017